# REHABILITATION AND MAJOR REPAIR PROJECTS FOR CONDOMINIUMS IN HUNGARY

## FINDINGS AND RECOMMENDATIONS
## OCTOBER 1997

Prepared for

East European Regional Housing Sector Assistance Project
Project 180-0034
U.S. Agency for International Development, ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 515


Prepared by

Christopher Banks
Martha Davis
*The Urban Institute*

Iván Tosics
Csilla Sárkány
Éva Gerőházi
*Metropolitan Research Institute*



October 1997
UI Project 06610-515


0


**THE URBAN INSTITUTE**
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

## TABLE OF CONTENTS

# EXECUTIVE SUMMARY

This report covers the third field visit of RFS 515: Rehabilitation and Major Repair Projects for Condominiums in Hungary. The RFS covers the selection, design, and implementation of rehabilitation and major repair projects in the existing multifamily housing stock in Hungary.

During a trip conducted from September 22 - October 3, 1997, the UI/MRI team focused on gathering financial and technical information from candidate pilot project buildings and consulting with local governments on financial assistance programs for condominium renovation. Through the assistance of public and private property management firms acting as project partners, the identification of condominium buildings as project partners is underway, and several buildings are viewed as good prospects. This report includes descriptions of all the potential pilot projects. In addition, model municipal programs to support condominium renovation were finalized in September and discussed in some detail with the municipalities of Miskolc and Székesfehérvár, and introduced to District III in Budapest. During municipal budget discussions in the coming months, it is hoped that the team's model program will be adopted by at least one city.

At the beginning of the trip, the team decided to drop District XIII in Budapest as a project partner. Despite numerous formal and informal attempts to contact officials in the district government about this USAID project, no clear expression of interest or commitment was ever received. As an alternative partner, the team selected District III for several reasons: the district has the largest amount of panel housing estates in the city, and efforts there could have a large impact; the district currently does not have any type of assistance program to condominiums, but is interested in developing one; and the district administration is viewed as relatively progressive, including in the area of housing policy.

# REHABILITATION AND MAJOR REPAIR PROJECTS FOR CONDOMINIUMS IN HUNGARY

## FINDINGS AND RECOMMENDATIONS
## OCTOBER 1997

## FINDINGS AND RESULTS OF FIELD VISIT

### *Overview*

This report covers the third field visit of the initial phase of RFS 515: Rehabilitation and Major Repair Projects for Condominiums in Hungary. The RFS covers the selection, design, and implementation of rehabilitation and major repair projects in the existing multifamily housing stock in Hungary. Specific condominium projects are to be selected on the basis of their being desirable, affordable, technically feasible, and replicable in multifamily buildings throughout the country. Identification of capital resources, cost effectiveness, and cost recovery will be emphasized.

During a trip conducted from September 22 - October 3, 1997, the UI/MRI team[1] focused on gathering financial and technical information from candidate pilot project buildings and consulting with local governments on financial assistance programs for condominium renovation. Significant progress was made in identifying potential pilot project during the trip, and the information is documented in this report. Additional work needs to be completed during the next trip, tentatively scheduled for November, 1997, to come to conclusion on a list of project participants.

The team made efforts to organize condominium association training in Miskolc and Székesfehérvár, and tentative start dates for the training have been set as October 27 and November 4, respectively. The training modules and trainers to be used were developed and trained under a separate USAID project. The training will be offered once a week over a five week period (one module per week), with the assistance of the city administrations and other interested NGOs, to include legal, organizational, financial, technical, and renovation modules for executive/audit committee presidents and some selected common representatives. It is hoped that the free training will generate more interest in the renovation project and produce some additional, motivated candidate buildings. Since initial contacts with District III were not made until this trip, condominium training was not discussed, but will be brought up during the next trip.

This report is organized around the three geographical pilot project locations, and a section summarizing developments of interest to the project in general. Annexes contain more pilot project information.

---

[1] The team on this trip was comprised of Chris Banks of the Urban Institute; Martha Davis, consultant to the Urban Institute; and cs, Csilla Sárkány, and Éva Gerőházi of Városkutatás Kft. (Metropolitan Research Institute, or MRI) of Budapest.

***District III***

## Candidate Pilot Projects

*Bogdani ut. 18*
*38 units*

This condominium is managed by an entrepreneur (Imre Galambos) who appears to do an excellent job (his office is just a block away from the condominium). He cited this building as a good candidate for the pilot project because owners really care about investing in the condition of their building. Last year they assessed themselves a one-time 15,000 HUF per flat fee (beyond the monthly common fee) to pay for facade renovation, and all but four paid it. This year they assessed yet another additional fee, 10,000 HUF per flat, to paint the stairwells.

The large majority of owners are pensioners, although many own their flats in conjunction with children or grandchildren. This may help explain how they managed to pay the extra assessments. Also, the basic common fees are very low (hallways are not heated, few children live there, and there is no lift). Heating bills are low also (2,000 HUF per month), given the small size of the units (34-38 square meters) and that the building was built with its own gas heating system.

The Accounting Committee of three is active, especially the President (Sandor Kalmar), a retired technician who takes a daily interest in the affairs of the building. He has lived there 40 years (from the first year), as have some others, and seems to be respected by most of his neighbors.

The condominium has about five rental units owned by District III, which also owns part of the basement originally designed as a bomb shelter. The District rents out this basement space as storage, and pays a common fee on it (whereas the remainder of the basement is not fee generating and is used for resident storage lockers).

The units appear to be in very good condition (we only saw the president’s immaculate flat), and are in a well kept block of similar, low-rise buildings from the 1950’s. However, they are interested in a new roof and work on the water/sewer lines in the basement. The common representative and the president both said the owners “might” be willing to take loans, even OTP loans (if they are at a good rate), for the future renovations. They were pessimistic that the District III government would do anything for them. The president indicated that people were tired of putting in such large sums of cash for renovation.

*Our Role:* The USAID project could play several roles with this pilot project. A) To help this condominium explore using loans rather than “all cash” for renovation projects. If OTP financing is utilized, it may be an example where elderly owners’ children are guarantors of many of the loans. B) Our engineer could help ensure the most appropriate scope of work is designed. C) We can help encourage residents other than the president to be active in the project.

*Zapor ut. 53-61*
*296 units*

This panel building has been managed since 1994 by an entrepreneur, Andres Szigetvari, who is also a resident (this is his only common representative job, as he has another daytime job in a business). He appears to have things well under control, and the building and grounds are in good condition. This high-rise is located in a neighborhood with a mixture of panel high-rises and older, smaller brick apartment buildings. It is not far from the city hall of District III, near the Árpád bridge.

Financially the building is in good condition because of the relatively low number of arrears (for a building its size); the apparently small number of repair needs (the building must have been one that was “well built”); and a substantial (2.5 million HUF annually) income from rental of 8 shops owned by the condominium.

In fact, a major contribution of this common representative was to propose several years ago that the unused ground floor space (luckily not owned by the municipality) be rented out as commercial space. Three shops are still municipally owned and pay only the common fee to the condominium, although the common representative hopes the condominium can buy these spaces in the future. Most of the residents are pensioners, Szigetvari reported, but they are the most timely payers. Flats range in size from 48 to 82 square meters, with most around 52.

In addition to the common representative, there is an accounting committee of three (two are pensioners and one works in government). There is also a paid caretaker/superintendent who has an office on the ground floor and receives common fees. Every day one committee member checks on that person and the daily cash flow. Every Tuesday evening there are “consulting hours” held in the office on site, with either the common representative or a committee member (alternating weeks). Not very many people turn up there, so people must be pretty satisfied, the common representative concluded.

The general assembly meeting last March drew about 120 people. Overall the residents have a positive attitude, although they voted down a proposal from the common representative to modify the hallway lighting (there are 150 such fixtures, using a lot of electricity 24 hours a day). He proposed that motion detectors be placed on the lights so they would only light up when someone is present. He believes that many people felt they might be left with no lights at all.

Renovation has been undertaken already to replace down spouts (1.3 million HUF), paint staircases (0.9 million HUF), replace one section of roof (0.3 million HUF) and insulate panel joints (0.6 million HUF). Now, the particular item that will be considered in 1998 is to change the locks on the 10 entrance gates to make them electronic (there is a bid of 280,000 HUF). This is aimed partly at improving security to keep out vagrants who sometimes sleep in the stairwells. In the long-term, the lifts will need modernization (3.5 million HUF) but right now they work well and are inspected quarterly.

District heating (without any meter on the building) is used here, and is not considered much of a problem by the common representative. He likes the fact that billing for the common area heat is now distributed among all the individuals' bills, so that the condominium itself does not pay a bill. That is the critical reason he has not sought a meter for the building: even though it was estimated the meter would save 157,000 HUF per year in billing, the entire bill would be sent to the condominium and it would be responsible for paying it and passing on the costs through common fee collections.

Szigetvari is interested in getting engineering information about the expected life of other systems: plumbing and sewer pipes, for instance. He would consider a long term replacement reserve savings plan to replace major systems—this might be the demonstration aspect of this building. But he also would like information about loans. He says residents would not attend a special general assembly meeting about renovations, but he could distribute information via letter in advance of the March Assembly. People will give feedback in writing or during the consulting hours.

*Our Role:* This building needs an analysis of the remaining life of each system so it can make a long-term replacement plan. We can provide an engineering study that will allow the planning, and encourage the set aside of designated replacement reserves. Hopefully it can demonstrate the merits of this approach for a building without urgent renovation needs at the present moment.

*Gyenes ut. 8*

Managed by the private company Sajometal kft., this 20-30 flat building is brick, built in 1956. The condominium has pursued several renovation projects already and appears in good financial condition. Though many pensioners live there, they have good reserves and started renting out cellar space to earn the extra income used to help fund renovation.

Recent renovations include a roof renovation (500,000 HUF, 3 years ago) and partial facade renovation (300,000 HUF 2 years ago). The renovation issue now is a complicated question about further roof repair needed in conjunction with ongoing water damage to one particular unit. Thus far, both the condominium and the unit owner assert that the other is responsible for repairing the problem. The General Assembly has taken one vote against spending condominium money on this problem. An expert report contracted by the condominium (in March 1997) states that this is the fault of a common area problem (roof, we think), and the manager believes that there are tasks needing to be done by both the individual and the condominium. This is the only common area problem needing attention, according to the manager.

There has been a monthly 6 HUF per square meter renovation fund in the budget, so presumably the condominium could qualify for OTP loans, though we did not get the entire history of the fund. We did not collect full financial data, but did receive the 1997 budget. One contribution we could make would be to show the modest payments required on OTP loans relating to fixing this problem, though this may not cost enough to merit taking loans just for this one purpose.

An open question is whether we could add value by being involved in settling the organizational question of how to allocate responsibility between the condominium and the individual.

**Municipal Officials**

*Meeting with Deputy Mayor László Szegner*
*September 23, 1997*

The Deputy Mayor opened the meeting with background on the housing stock within District III. He noted that his district has the highest number of panel-built flats within any locality in Hungary. The municipality owned 38,000 flats in 1990, and in the privatization process it sold 34,000, leaving only 4,000 in municipal ownership. [Differing figures were presented later by Celer kft., the IKV successor, which said there were 25,400 municipally owned flats, 17,000 of them in panel buildings, and that 21,600 were privatized. This leaves a municipally owned stock of 3,800 flats.]

There are some very large housing estates in the southern and eastern parts of District III which are considered very desirable places to live, especially the Romai estate near the Danube. The northwest sector of the District has lagged behind in real estate values, he said. He noted that there is little or no separate building metering of district heat.

He noted there is a housing allowance program in District III, with a 17,000 HUF/month income limit. He said almost all pensioners could qualify for this allowance.

Mr. Szegner was not overly optimistic about prospects for widespread renovation of condominiums in his district. He said the municipality has no significant funds available and he thinks most people cannot afford a loan. He was not aware of any condominiums which had completed a renovation, although a German company did renovate a portion of a 472-unit condominium in 1996 as a marketing tool to demonstrate its services. Mr. Szegner believes no condominium can afford to pursue such extensive renovation from its own budget. For that reason he thinks the German loan program, with its complicated requirements, is not workable.

Mr. Szegner did not have much information about condominiums in his district or their management, saying that he believes most use private (non-Celer) management companies. He said there is an Association of Condominiums, which meets in the municipal building, but he's not sure how well organized it really is (nor is it clear whether this is an association of common representatives, since the terms are often confused.)

He is interested in cooperating with our pilot program, and offered the use of the District's newsletter and Cable TV programs to publicize this project.

**Management Companies**

*Meeting with Director of Celer Kft., János Szamos*
*September 24, 1997*

Mr. Szamos said that his company manages the 3,800 flats still owned by the municipality, most of which are scattered around in mixed ownership buildings. Only 900 of the municipal units are in all-rental buildings (150 buildings), and these buildings will be offered for sale to residents in the future. There are a total of 403 condominium buildings already privatized. Privatized units were sold for 15 percent of market value, and he estimated the market value of a typical 50 square meter flat at 2 million HUF.

Celer provides management services for 20 condominium associations containing 2,500 units. These are all panel buildings, many of them high-rises with elevators, and generally have little in reserves to fund renovation. (Through its management of rental flats in mixed ownership buildings, Celer has contact with over 400 other condominiums where another private entity is manager.) Generally the condominium owners do not want nor get any information during the year on the finances of their condominium, until the February/March general assembly meeting, so Szamos is not impressed with the level of interest shown by most owners. He said his company has terminated several management contracts because the owners were not interested enough in good management to undertake financial sacrifice.

Because large panel building condominiums are in such a financial squeeze, Szamos thinks renovation should be tackled with government funds. Built between 1970 and 1983 and containing 90 to 120 units, the panel buildings do have substantial renovation needs, primarily the roofs, insulation of joints, and lifts. Roofs cost 3,000 HUF per square meter for a thorough renovation, and 35-40 percent of them are leaking now, he said. Each lift renovation costs 1.5 million HUF.

District heating on one-pipe systems is used in almost all panel buildings, and Szamos said any change in heating method would be uneconomical for such large buildings. Five to six large apartment buildings are heated from each heating center. Billing for the heating cost for common areas was recently changed by the Budapest municipality: an approximately 25 percent surcharge has been added to individual owners' bills, instead of charging the condominium association for this heat. This has helped keep common fees lower this year, at the expense of higher individual bills.

District III has not supported condominium rehabilitation with any loan program so far, but Mr. Szamos believes there will be a 10 to 20 million HUF fund established next year for renovation grants. (This could be intended as the district's contribution to participation in the municipality's new condominium renovation program. As of the time of our visit, the district had not decided whether to participate in that municipal program.) Szamos also supports the idea of a program office to assist condominiums, and Celer itself would like to provide this service in District III. It has made such a proposal to the district government, and he said there will be a plan to open such an office in January 1998. It would provide legal and financial advice to condominiums free of charge. It is not clear if this proposed office is somehow connected to the municipal condominium renovation program, if the district government decides to participate.

Most condominium owners do not have any information about how loans could be used to pay for renovations, so they are skeptical about them. Those who used the installment plan to purchase their flats from the municipality (at a 3 percent interest rate) do have liens on their property from the district. Szamos said any new loan with its own lien would require a change in the municipal decree to allow a second lien, but this would not be difficult to do.

For current occupants of municipally owned units within condominiums, the District pays out 220 million HUF annually for common fees, of which about 40 percent is covered through rent collections from those flats. On the other hand, the district collects 260 million HUF annually in rents on commercial space it still owns within condominiums, thereby cross-subsidizing municipal tenants and covering their common fee expenses.

*Meeting with common representative Imre Galambos*
*September 30, 1997*

Mr. Galambos is an individual entrepreneur who manages 23 condominiums with about 1,000 units. He has operated since 1993, starting with his own building and branching out as his reputation spread. He works mostly in District III, but not exclusively. Only one of his clients is a panel building, the rest are brick. He has a small office in the basement of the condominium where he lives on Bogdani Ut., and has no staff.

He views his job as common representative as requiring the coordination of professionals such as lawyers, contractors, etc., monitoring their work, staying in touch with the residents, and keeping things organized in general. He has stayed abreast of the debate about the condominium law, and participated in a recent meeting of common representatives in this district with their member of Parliament to give feedback on the proposed changes. He has contacted District III about loans for his condominiums and was disappointed there were no programs established as of yet.

He charges monthly fees for his services of 250-400 HUF per unit. While he says that common representatives customarily also collect a 10 percent payment from construction contractors who work at their buildings, he is proud that he does not collect this 10 percent, though sometimes he accepts something less. He indicated that he wants to do a good job for the residents and is not out to maximize his profit.

**Non-Governmental Organizations**

*LÉTÉSZ*
*Attila Ujj, President*
*September 24, 1997*

The team met with Mr. Ujj to find out more about his organization and the potential for collaboration with our project and identification of pilot buildings. LÉTÉSZ is a membership organization providing advocacy and technical and educational services to its members. LÉTÉSZ began years ago as an organization representing the interests of cooperative housing, and since 1994 it has admitted condominium associations as members. Although cooperatives still dominate the membership structure, condominiums are growing in number (Mr. Ujj would not divulge any specific information on membership, but the team estimates the cooperative share at about 90 percent at this time.)

The monthly membership fee for LÉTÉSZ is 26 HUF per unit, and members must pay extra to benefit from special services. The organization is based in Budapest, and operates only there. Mr. Ujj stated that there were other similar organizations operating in Budapest, but that they do not provide the types of services that LÉTÉSZ does, and that they are more oriented towards specific issues.

LÉTÉSZ offers a number of services to members, including advice and consultations in the areas of construction, maintenance, and taxation, in addition to legal, technical, financial, and organizational assistance. Also, educational assistance is provided in the form of seminars and training. Seminars cover topics such as the new Housing Savings Banks, the German energy efficiency loan, and professional topics like accounting and financial control. They are currently organizing a training course for condominium common representatives and executive committee presidents on how to prepare for renovation of a building, how to approach banks, safety techniques, and other topics. The cost is 9,900 HUF and they have received 800 expressions of interest in the training. The training will be organized for groups of 60 participants, with the first training starting on September 25, 1997.

LÉTÉSZ has tried to organize their own pilot renovation projects in the past, but Mr. Ujj claimed that they did not succeed because owners were not able to afford them. In general, Mr. Ujj stated that renovation has been much more successful in cooperatives than with condominiums. He believes that 100 percent agreement is required for condominium associations to undertake renovation of common areas.

Mr. Ujj said that LÉTÉSZ helped initiate the new draft condominium law and that his organization is focussing on condominium renovation. They have the capacity to disseminate knowledge and information, and conduct training, but they do not see a role in working with individual buildings to "take loans."

### *Miskolc*

#### Candidate Pilot Projects

*Ifjusag ut 14*
*44 units*

This panel building is well run and seems to have owners with a cooperative spirit who want to improve their building. Though it does have the expense of a lift, because its stairwell is open to natural light the manager says electric and maintenance bills are not too high. The residents were willing to increase their common fee by over 20 percent this year, after the Accounting Committee proposed a much larger increase (a doubling up to 70 HUF). There is an arrears problem, especially with 2 families (against which the condominium is taking legal action), but the committee is taking steps to talk with and send notices to all in arrears.

The two committee members the team met were very involved in the building (the president has lived here since it was built), and have a good working relationship with their common representative from MIK. The building had hired an entrepreneur as common representative when they first privatized, but after two years they fired him because he would not disclose invoices to the owners and they suspected him of stealing. This left the condominium in debt with some unpaid bills when MIK took over in 1994. The committee members stay in regular communication with owners, for instance surveying them about the preferred hallway paint color and also about whether supplementary heating should be purchased for this September. (Vote was no.) Also, there was a supplementary general assembly meeting to vote the money for hallway painting.

The composition of owners is good, says a committee member: about 20 percent pensioners, 20 percent young families under 30 years of age, and 60 percent middle aged. Incomes are fairly similar among different families; those with good incomes moved out to buy family homes.

Renovations completed recently are a partial insulation of panel joints around the stairwell (150,000 HUF in 1995), and painting of stairwell (more recent). Also, most owners now have their own water meters and pay directly to the water company. Heat insulation is not a priority; they are satisfied that there is decent insulation in the panels and roof, plus they have a one-pipe system with no meter on district heating (so they would not reduce their bills unless a meter were added). Monthly heating bills run 7,000 HUF per unit in winter and 2,300 HUF in summer.

The condominium's renovation priority project is water insulation of the roof, which would cost in the vicinity of 1 million HUF (based on a 400-500 square meter roof). There has not been a discussion yet of how to pay for the roof repair. The bank account is at OTP, and it may be possible for most owners to qualify for loans. They said most owners probably don't want liens, but may not really understand them. The president said they might be able to make a special assessment of 5,000-7,000 HUF per flat (almost 300,000 HUF total) to go toward the roof cost.

*Our Role:* Financing assistance is the main need of this group, because the roof renovation appears straightforward and they are organizationally strong. The potential of qualifying for OTP loans should be explored, in particular qualifying the condominium that does not have a designated renovation account, as well as looking at using the new municipal loan program if that comes about.

*Szechenyi ut. 56*
*24 units*

This four storey, 100 year-old building sits in the center of Miskolc on the pedestrian shopping street. It has a substantial number of commercial spaces still owned by the municipality (30 percent of total area), and also has a billboard lease providing rental income to the condominium. Ninety percent of the residents are professionals attracted by the large size of the residential flats (80 to 120 square meters) and the good location. The condominium is managed by Mr. Paszk of AlomPalota (Dream Palace), which would be a positive factor in working with this building.

This building was only privatized in 1996, with most members paying cash, so it started with a clean financial slate very recently. (Arrears data are missing, but probably this is a minimal issue.) Already in the past year, the condominium has spent 800,000 HUF on renovation of the chimneys, drainage pipes, and partial facade work. Additional, substantial work on the facade is desired, as well as repair of corridors and the water line. Estimated cost for all three is 2.5 million HUF (estimate from manager).

Common fees were raised this year to 40 HUF per square meter, with 45 HUF assessments on some upper flats used commercially (a furniture shop is on the fourth floor) and 48 HUF assessment on ground floor commercial space owned by the municipality. Paszk said they were not sure the municipality would accept this, but it has been paid without problem.

The Controlling Committee consists of one engineer and three lawyers. The team has not yet met with them. Mr. Paszk says this building would like help from us, might be willing to borrow money in addition to using reserves, and could be a model for other houses in the downtown area. They have started a Housing Savings account in 1997 at OTP.

*Our Role:* We would work with this group to get loans, probably through OTP, and in particular test OTP's willingness to lend to a relatively new condominium which may not have a segregated renovation account. Alternatively, the team could work with the condominium to get a loan to the association from a commercial bank to demonstrate that possibility. The project would also be an opportunity for the team to help demonstrate a more comprehensive renovation than that under consideration in other pilot buildings.

**Municipal Officials**

*Meeting with Tomas Papp,*
*Director of Department of City Management and Investment*
*Also attended by István Csorba, member of Mayor's Advisory Committee*
*September 29, 1997*

The team (Tosics and Davis) met with Mr. Papp and Mr. Csorba to get a response to the team's proposals for a Condominium Renovation Loan Program. Mr. Papp had looked at the proposals but not carefully, it appeared, and so the team reviewed the structure of Programs A and B. There was not much detailed reaction from Papp, though he did agree that the need for renovation in privatized condominiums is a problem. He felt that the passage of the new condo law would facilitate renovations to go forward, and that it would be good to work with MIK as a partner in any new program. (The team noted that while MIK can participate, it should not be the judge of applications for any fund.) He views the need to renovate lifts and do something about district heating and insulation to be the major priorities.

Mr. Csorba advocated for new programs to assist condominiums, especially high rise buildings that are most in need of help. Papp said that any city program must be open to all types of buildings, even if panel houses have most of the need. Csorba said that the municipality needs to be proactive in assisting with renovations, otherwise these condominiums will deteriorate and revert back into municipal ownership. Papp agreed that, all over Hungary, units in housing estates will become more and more concentrated with poor people as the solvent ones move out and many will become municipally owned by default.

Papp's reaction was generally positive, and he said that in principal he thinks the loan programs are a good idea. There was not any particular reaction to Program A or B that indicated whether one or the other or both was favored. He cautioned that any fund will be modest in size, 10 to 30 million HUF. [Earlier, the team met with Mr. Pinter, Secretary to the Mayor, who said that Mr. Papp's analysis of the programs would be pivotal in determining their chances of inclusion in the budget next year. Pinter also said that Papp would be our main contact point regarding these programs, though others will help out with the condominium training outreach − Mr. Csorba (to contact condominiums) and Mrs. Temesvari, the press secretary.]

To move forward on the proposed loan programs, Mr. Papp said he would send MRI his comments on the programs, and designate a staff contact person in his department. He said the committee level debate on the program should wait until after the new condominium law is enacted, though the team disagreed with this approach. Mr. Csorba said he would distribute copies of the current proposal to some additional common representatives for their response.

***Székesfehérvár***

**Candidate Pilot Projects**

*Ybl 2*
*60 units*

This four-storey building is well maintained, near the center of the city, and has a somewhat affluent resident population of mostly retired military officers. It was built in 1971 of panel construction, owned by the military (not the municipality) and privatized in 1992. It is now 100 percent privately owned, has zero arrears, and 1.7 million HUF in reserves (at OTP). The common fee is 42 HUF per square meter plus individual water bills. Flat sizes are 34, 55, and 67 square meters (equal numbers of each type). It is managed by an individual pensioner who lives in the building and acts as common representative, Géza Domoszolay.

Flats appear to be in very good condition (we visited the common representative's flat), and there are no elevators (3 stairwells). The house heats its own hot water in basement boilers, and has added a thermostat to regulate the use of district heating. Since the house has its own meter, it has been able to reduce individual owners' bills from the district heating company. (Bills now run 6,000 HUF per month year round.) Still, the common representative views district heating as wasteful because it spends 52 percent of its funds on maintenance, and the house would like to change over to their own heating system. About 50 families approved the idea at the last general assembly, and now all but 3 have been contacted and approve. The idea would be to borrow 3 million HUF from OTP and invest 2 million HUF from reserves, for the total cost of 5 million HUF.

However, with regard to taking OTP loans, the main issue is whether owners will approve of everyone having to take out an individual loan. At the time of the assembly, the owners believed there could be one joint loan to the condominium with repayment covered from an increased common fee. The question will be raised at the next assembly about whether people are willing to make the effort to get individual loans. Mr. Domoszolay also looked into other financing (German loan, etc.) but did not find any good alternative.

He noted that an entrepreneur had proposed to built extra flats on the roof of the building and pay the condominium 5 million HUF, but there was not 100 percent agreement from condominium owners so this has been rejected.

There is an accounting committee of two, plus a house committee with a representative from each staircase plus the common representative (4 total). The house committee meets monthly to talk over what needs to be done in the building. Only the common representative is paid.

*Our Role:* First, the team needs to reach agreement on whether this project is an acceptable candidate, given that its plan to disconnect from district heating may be contrary to the city policy. The city needs to be asked whether they object to this project. If we do pursue this project, then: A) We can help the building do a financial and engineering analysis of the proposed project to see if the project makes sense. If it does, we can help the condominium work through the OTP loan process, helping structure the loans to accommodate the potential lack of 100 percent agreement, and see how the administration can be streamlined to ease residents' concern about the effort involved for 60 individual loans. B) The condominium is interested in an engineering investigation of the condition of other systems, such as sewer lines, and planning for the long-term.

### Municipal Officials

*Meeting with László Gaspar, City Management Directorate*
*October 2, 1997*

Mr. Gaspar had received and read our proposal regarding Condominium Renovation Loan Programs “A” and “B,” and the city Committee for Housing also had discussed them at a meeting the previous Monday. There seemed to be interest within the committee, and they had asked a committee member who also is an official with the Credit Bank to give his analysis of the programs within the next two weeks.

The team (Tosics, Davis, and Gerőhazi) reviewed the two programs, emphasizing that both could and should be enacted at the same time and would serve different parts of the condominium market. Gaspar listened and responded favorably. He liked the fact that state subsidy would be leveraged under Program A, and indicated a preference for the loan guarantee option because it would save the city money. He noted that it would be complicated to set up, but worth the complication to save money compared to the direct loan option.

Regarding Program B, a full city loan to the condominium, his fear seemed to be that it might be considered an entitlement and mushroom into a large program beyond the city’s means. Once assured that it could be limited to a certain budget amount, and that condominiums would, if necessary, have to wait in line to access the limited funds, he seemed interested in supporting Program B as well. The fact that a revolving fund could be set up using the repayments was also considered favorably by Gaspar.

He said the programs can be introduced at the city council’s November Assembly, and if accepted, this would allow time enough for inclusion in the 1998 budget. Of course the Housing Committee would need to meet again prior to then to consider its recommendations. Tosics will send the financial examples of the cost of Programs A and B to Gaspar, and offered for an MRI group to attend the Committee’s meeting to provide further explanation of the programs.

Gaspar said that 20 to 30 million HUF is the budget range that he is considering for the overall program. He asked if MRI had any assessment of the appropriate size for such a program in Székesfehérvár, and the team gave examples from the various Budapest districts’ programs. Gaspar concluded that it would be sensible to start the program at a fairly small size, so as to test it before considering larger amounts.

One important question for the program involves a legal determination of whether the city’s Housing Fund can be tapped to provide these funds, which would be an advantage. The city had utilized this fund for a previous program, and then received a negative audit finding from state auditors to say the Housing Fund had been used illegally. A copy of this audit finding was given to MRI for further analysis, and MRI is to help explore the question of making a condominium loan program an eligible use for the city's Housing Fund.

It was noted by MRI that the Program B proposal requirement for condominiums to have arrears rates of less than 5 percent appears too stringent, in light of what the team has learned about the actual experience of well managed condominiums. We proposed that this requirement be applied case by case, or that the threshold requirement be increased, and this will be considered further by the team.

Mr. Gaspar was interested in knowing that the condominium training program will begin in early November, and promised to appoint a contact person in the city, and will recommend that a Housing Committee member attend. He was interested in somehow integrating information about the city condominium loan program, assuming that this is favorably acted upon by the Assembly this year, which was agreed could happen at the end of the training in early December.

***Other Meetings***

**OTP Budapest Central Office**

*Mr. Zsolt Oszlányi, Managing Director, Retail Banking Directorate, OTP*
*Ms. Krisztina Óvári (Harkainé), Manager of Housing Loan Programs, OTP*
*September 24, 1997*

The team was able to meet with Mr. Oszlányi, who is probably the most senior official at OTP with influence over housing lending programs, including the OTP condominium renovation program. The organization of the meeting was facilitated by a contact at the Ministry of Finance (Pál Cseh) who has recently become motivated to "improve" the condominium loan program at OTP.

The team's objective for the meeting was to explain our experience and knowledge about condominiums contemplating or applying for OTP loans in order to get Mr. Oszlányi to consider changes and improvements to the program. The first item discussed was OTP's requirement for the condominium loan program that the condominium's bank account must be at OTP for five years, or opened within 90 days of the condominium's founding. Mr. Oszlányi explained that OTP branches have their own business policy, and in principle, they prefer to serve their own clients because of familiarity with credit records. However, there is no OTP regulation requiring a condominium to have an account with OTP in order to get the loan, and given a satisfactory credit history, OTP would not prohibit that condominium from accessing the loan fund. However, they might require the association to set up an account with OTP after the loan is issued, which seems reasonable given the high underwriting and servicing costs of such a loan. Basically, it is a business decision on the part of an OTP branch office whether or not to grant the loan, not a bank wide policy.

With regard to OTP's apparent requirement that 100 percent of owners agree on the renovation project before granting a loan, Mr. Oszlányi stated OTP's policy is to respect the law, and that he agreed after discussion that only a 50 percent majority of condominium owners is needed to undertake a major renovation. Using an example of a 100-unit building where 20 units do not qualify for OTP loans, Mr. Oszlányi stated that OTP would encourage the other owners to guarantee the loans of the 20 who do not qualify. But if the 20 owners do not *want* to take out a loan, Mr. Oszlányi agreed that OTP could give a sufficient loan to the other 80 percent and secure that loan with liens only on those 80 units. In other words, liens on every unit are not required, as long as the security is sufficient.

Regarding the use of common property, such as a caretaker's unit, as loan security, OTP will only do so if it is registered in the cadastre as a separate piece of property.

The team briefly discussed Program A with Mr. Oszlányi, asking for reaction to the prospect of a municipal guarantee on a loan to an individual condominium owner. OTP has no apparent problems with this model, and would not require the municipality to appropriate any funds to cover the guarantee risk. However, the municipality must be solvent for the program to work. The mechanics of such a guarantee would involve an OTP loan to the individual, and a guarantee letter issued by the municipality for OTP, and some type of letter agreement between the municipality and the individual borrower. There is no legal difference between the municipality and an individual as loan guarantors.

One related issue involves that of flat owners who are under the age of 18. In this case, the guarantee of the minor's legal guardian is required for the loan.

***Next Steps***

**Miskolc**

*October/November*

- Visit one Inkez Kft.-managed building to meet with common representative and committee members; obtain data on house, and evaluate it for inclusion in project.

- Visit committee members at Szechenyi St. building (AlomPalota) to judge their interest in participating in our project (and collect a few more facts on arrears, priority among various future renovation projects).

- Complete financial scenarios computations on each house.

(The hope is we will have three Miskolc pilots, one with each of three management companies.)

- Coordinate condominium training with AlomPalota, Mr. Paszk—co-sponsorship, publicizing the training. Also notify Inkez Kft. Prepare nicer brochure for publicity.

- Start Condominium Training Program October 28.

*November/December*

- Contact architect firm in Miskolc (Teampannon Kft.) to hire them for review of each proposed project at the 3 houses, and cost estimate (not to do any plans).

- At all three potential pilot houses, organize a resident information meeting to get feedback and gauge their interest in our pilot program.

**Székesfehérvár**

*October*

- Prepare questionnaire for Condo Training Program participants, to gather information on their houses and also solicit interest in joining our pilot projects. Also ask Mrs. Varga if her Association of Owners and Tenants wants to co-sponsor training, and distribute brochures to all our contacts.

- Provide information as requested by municipality on legal question of Housing Fund, financial simulations for Programs A and B, and possibly data on size of and experience with renovation funds in Budapest districts. Possibly participate in Housing Committee deliberations on the new programs.

*November*

- Monitor action of Municipal Assembly regarding vote on new loan program.

- Begin Condominium Training Program November 4 (tentative).

**District III**

*October/November*

- Meet with Zapor ut. condominium Accounting Committee to determine their interest in participating. Receive budget data from that project and any estimates of cost of future renovation projects.

- Meet with OTP in District III to solicit their cooperation.

- Follow-up with management companies (Celer and Sajometal) to see if they will nominate buildings that actually plan renovations.

- Track the decisions in District III local government to see if they decide to participate in Budapest renovation program, or what other type of renovation fund is possible.

- Decide when to start the Condominium Training Program (mid-November?)

*November/December*

- Meet with District III to get comments on our Condominium Loan Program proposal, or are they considering a grant program (as Mr. Szamos said), and are they still considering a program office?

- Contact architect for review and cost estimates for 2 buildings (Bogdani and Zapor ut.), unless additional houses are under investigation, in which case architect work moves back to December to encompass all houses.

# ANNEX A

# SAMPLE FINANCIAL ANALYSIS

# ANNEX B

# CONDOMINIUM RENOVATION PROJECT SCHEDULE

# ANNEX C

# CONDO INFORMATION SUMMARY

# ANNEX D

# CHECKLIST FOR EVALUATION OF CONDOMINIUM PILOT PROJECTS